

*Cum gratia Bonus
1/5 be "locked"*

STRICTLY PRIVATE AND CONFIDENTIAL

Date 29 August 2007

Your ref

Dear Mr Gallagher

TRANSPORT INITIATIVES EDINBURGH LTD – POST OF EXECUTIVE CHAIRMAN

I refer to ongoing discussions proposing your appointment as the Executive Chairman of Transport Initiatives Edinburgh Ltd. Any appointment and associated terms and conditions would, of course, be subject to final approval by the TIE Board.

By way of summary, I would anticipate that the post of Executive Chairman would be on the basis of an employment contract for the duration of the project and be subject to the following terms and conditions:-

1. A full-time appointment to the post of Executive Chairman would commence in August 2007 for the duration of the project and be subject to review in August each year.
2. The person appointed would be responsible for the efficient discharge of the duties of the post of Executive Chairman to the Board of Transport Initiatives Edinburgh Ltd.
3. The hours worked will be those required to fulfil the duties and responsibilities of the post.
4. The basic salary applicable to the post of Executive Chairman would be £ [REDACTED] subject to review annually in August each year. In addition, a 50% bonus would be payable, that is -:

**JIM INCH
DIRECTOR**

Waverley Court, 4 East Market Street, Edinburgh, EH8 8BG
Tel 0131 469 3008 Fax 0131 469 3010



INVESTOR IN PEOPLE

- a. An annual bonus of up to 30% of basic annual salary subject to the achievement of certain defined key business objectives, to be determined by the TIE Board in consultation with the postholder; and
 - b. a long term performance award with payment deferred to the end of the project. This would be subject to achievement of the above key business objectives in each year of the project. The long term performance award would be offered at a rate of up to 20% of basic annual salary for each year of the project and reflect the level of % bonus awarded in a. above.
 - c. The arrangements surrounding the above bonus proposals will be subject to further discussions between the TIE Board and the Executive Chairman.
5. The entitlement to holidays would be 35 days and include any entitlement to public holidays.
 6. The person appointed would be entitled to receive from and required to give Transport Initiatives Edinburgh Ltd notice of termination of employment of six months.

I trust that you will find the terms outlined above acceptable. I would ask that you confirm your willingness to accept the appointment on this basis by return. As outlined earlier in this letter any appointment and associated terms and conditions would, of course, be subject to final approval by the TIE Board and a full Statement of Particulars would follow in due course.

The contribution you have already made to the project is well recognised and I hope that this arrangement will provide an opportunity for you to continue the good work and help to achieve a successful outcome for the project.

Yours sincerely

AIDE MEMOIRE – DRAFT

REMUNERATION OF EXECUTIVE CHAIRMAN TIE

OVERVIEW

- Executive approval for £500m funding of Edinburgh Tram project
- Critical role of CEC, TEL and tie in successful delivery of ETN
- The need to secure and retain core and critical business leadership and management capability – Executive Chairman most critical
- Transformation of tie organisation in last 14 months under Executive Chairman's leadership
- Critical deliverables in next 12 months
 - Ongoing MUDFA Utilities work – on time and in budget
 - Traffic Management and the political and project deliverable considerations
 - Full effective integration of CEC into Tram team with increased ownership and clarity on roles and responsibilities
 - Procurement of Infraco and Tramco in line with Business Case and delivering “Best for Edinburgh”
 - Final Business Case signed off and agreed
 - Financial Close by January 2008
 - Funding opportunities – develop improved capacity to access investment and private sector commitment
 - Launch of full Tram construction activity in Spring 2008
 - Ongoing review towards the development of a fit for purpose Tram delivery organisation and resources
 - Negotiating resolution to role of tie in EARL and SAK

CURRENT ARRANGEMENTS FOR EXECUTIVE CHAIRMAN

- 6 Month rolling contract with one month notice
- Salary of £100,000
- Bonus opportunity of 50% based on performance criteria set and agreed by tie Remuneration Committee

CONSIDERATIONS

- Significant threat to “poaching” and “attraction” from external bodies (real and happening – two serious approaches and offers in past 2 months from Utilities)
- Gap in existing market place provision for small transport/infrastructure projects
- Ongoing changes likely to be proposed for role of Transport Scotland and future transport strategy and investment from Scottish Executive. tie needs to be available and alert to potential opportunities
- Professionalism and dignified response of tie and the Executive Chairman to the political uncertainties of past four months and the impact of Audit Scotland Report in June has been acknowledged and recognised
- Significant gap from market value in terms of total remuneration (including salary, benefits, pension, Short and Long Term Incentives and notice periods)

- Significant confidence and acknowledgement in professional and personal capability across all stakeholder groups
- Significant confidence and acknowledgement of the successful relationships and interactions with critical stakeholders at both a national and city political level and with core business and commercial communities
- Significant risk to denuding of the project of other key management and professional staff if Executive Chairman left the organisation – like the successful football manager who moves on
- Critical time in the gestation and transformation of the project from “selling” to “delivery” mode
- Proven success with even greater capacity to succeed and grow
- Established an effective and professional “private sector” mentality project delivery organisation within public sector ownership
- Risk to reputation and success of the project if Executive Chairman is “lost” to competitive forces
- Need to reward fully reflecting market realities the Executive Chairman role and retain parity with other external competitors and peers
- Audit Scotland Report June 2007 stated
 - Tram project approaching critical stage
 - clearly defined project management and organisation
 - continuity is important
- Executive Chairman’s presence, professionalism and passion is an inspiration to all
- Capability, intellect and extensive experience brings a continuous improvement environment and constructive challenging
- **tie** Board and **tie** Remuneration Committee have both stated their desire that the Executive Chair role and job holder are maintained for the benefit of **tie** and the successful delivery of the Tram Project for the City of Edinburgh

Key Question – Would tie have got to where it is now without contribution, drive, leadership and capacity of the Executive Chairman?

EXTERNAL MARKET

From MCG Consulting Senior Executive Remuneration Market benchmarking report February 2007 (Strategic Hr Consultancy practice of DLA Piper UK LLP)

- Evidence based on 48 construction, project management, project engineering, project consultancy and related organisations with Scottish and UK activities

	Salary (median)	Benefits	Pension	Total	Annual Bonus	LTI
Executive Chair/CEO	£160,000	£15- £20,000	c15- 25%	£199,000	50-100%	Variable
Executive Chair tie	£100,000	£0	0%	£100,000	50%	none

RECOMMENDATIONS

RETENTION

- Continue with Executive Chairman role
- Extend contract to rolling 12 months with six months notice
- Termination and Severance 6 months salary and 100% annual bonus

REWARD

- Increase Salary to £150,000 – with 6 monthly review
- £20,000 non bonusable but taxable benefits allowance
- Increase annual bonus opportunity to 75% - 50% banked and 50% paid
- 50% retained each 12 months as a retention and completion bonus
- Thus 200% completion bonus by 2011

Salary	£150,000
Allowance	£20,000
TOTAL PAYMENT	£170,000

Annual Bonus	£56,250 (max)
Completion Bonus (2011)	£225,000
TOTAL INCENTIVE OPPORTUNITY (2008-2011)	£450,000